Supreme Court of the United States.

No. 275.—October Term, 1904.

The United States, Appellant,
vs.
The Harvey Steel Company. } Appeal from the Court of Claims.

[January 16, 1905.]

Mr. Justice Holmes delivered the opinion of the Court.

This is a claim for royalties upon a contract made between the parties to the suit under the following circumstances. The Harvey Steel Company is the owner of a patent, numbered 460,262, for a process for hardening armor plates and for armor plates. After careful experiments, made by the Navy Department before the patent was granted, a contract was made on March 21, 1892, the material elements of which are these: It recited that the company was the owner of the patented rights to a process "known as the 'Harvey Process' for the treatment of armor plate for use in the construction of vessels"; an agreement that armor plate "treated under the said 'Harvey process'" shall be applied to certain vessels; the previous giving of an option to the Navy Department "of purchasing the right to use and employ the 'Harvey process' for treating armor plates, as follows: 'We hereby agree to give to the Navy Department an option for the purchase of the application of the Harvey process for treating armor plates, which was tested at the Naval Ordnance Proving Ground, Annapolis, Md., February 14, 1891,'" on terms set forth, one of which was that Harvey, the inventor, should furnish all details in his possession, or which he might develop in the perfection of his methods; the acceptance of the offer by the Navy Department; and an agreement by the United States to pay the expense of applying "the said process," &c. The contract then went on to agree that the United States, upon the terms stated, might use "the hereinbefore-mentioned process known as the 'Harvey process'," gave the company a royalty of one-half of one cent a pound up to $75,000, when the royalty was to cease, and stated other terms.

This contract had conditions for further tests, &c. Numerous further experiments were made, and on October 8, 1892, the company was informed by letter that "the Harvey process for armor plate has been definitely adopted by the Navy Department." In pursuance of the offer mentioned in the contract, the Navy Department required and received from Harvey a revelation of the secret process and improvements, and thereafter, on April 12, 1893, the parties made a new contract upon which this

suit is brought. This recited, as before, that the company was owner of the patented rights to a process "known as the Harvey process," and referred to the patent by number and date. It then recited the making of the agreement of March 21, 1892, "whereby the party of the first part granted to the party of the second part the right to use and employ the Harvey process aforesaid," &c. It then cancelled the old contract, and agreed that, in consideration of $96,056.46 royalty, the United States might use "the aforesaid Harvey process" for all naval vessels authorized by Congress up to and including July 19, 1892, and further, that it might use the "aforesaid Harvey process" upon vessels authorized after that date, "paying therefor" a half a cent a pound. The company covenanted to hold the United States harmless from further claims, and from demands on account of alleged infringement of "patented rights appertaining to said process;" to furnish full information regarding the composition and application of the compounds employed in the Harvey process, and all improvements which it might make upon "said process as covered by the aforesaid letters patent," and that the United States might adopt and use such improvements. Finally, it was agreed that "in case it should at any time be judicially decided that the party of the first part is not legally entitled, under the letters patent aforesaid, to own and control the exclusive right to the use and employment of said process, and the decrementally hardened armor plates produced thereunder, as set forth in the letters patent aforesaid, then the payment of royalty under the terms of this agreement shall cease, and all sums of money due the party of the first part from the party of the second part, as royalty for the use and employment of said process, and armor plates, as aforesaid, shall become the property of the party of the second part."

The United States has built battle ships armored by the Harvey process communicated to it, and, subject to the questions which will be mentioned, by the terms of the contract there was due a royalty of sixty thousand eight hundred and six dollars and forty-five cents, to which sum the Court of Claims found the claimant entitled. 38 C. Cls. R. 662. It never has been judicially decided that the claimant has not the rights mentioned in the last quoted clause of the contract. The United States asked additional findings, which, it now contends, would establish that the patent was invalid, or, if valid, valid only if restricted to the use of a heat above 3100° Fahrenheit, in which case the patent was not used by the United States. These findings were refused as immaterial and the United States appealed. The main question is whether, under the last quoted clause of the contract, the United States can set up the invalidity of the patent in this suit. It is argued also that the United States ought to have been allowed to show that it had not used the patent, properly construed, although it is not denied that

it has used the process communicated to it and known in common speech as the Harvey process.

It is not argued that there was a technical entire failure of consideration. The claimant was under continuing obligations, which it is not suggested that it did not perform or is not still performing, and one of which, the imparting of its secret information and improvements, it had performed under the original agreement, out of which the last contract sprang. The argument is put mainly on the construction of the clause quoted, coupled with the further argument that the United States ought not to be estopped as licensee to deny the validity of the patent because it is not a vendor but simply a user of the patented article, and therefore has not enjoyed the advantage of a practical monopoly, as a seller might have enjoyed it even if the patent turned out to be bad. This distinction between sale and use, even for a non-competitive purpose, does not impress us. So far as the practical advantage secured is matter for consideration, whether a thing made under a patent supposed to be valid, is used or sold, it equally may be assumed that the thing would not have been used or sold but for the license from the patentee. We regard the clause in the contract as the measure of the appellant's rights.

The words of the condition on which the payment of royalty was to cease, taken in their natural and literal sense, do not mean what the Government says. A plea of that condition, to satisfy the words "in case it should at any time be judicially decided" that the patent was bad, would have to be that it had been decided to that effect. It would not be enough to say that the defendant thought the patent bad, and would like to have the court decide so now. We see no reason to depart from the literal meaning of the words. It is argued that so construed they are very little good to the United States, since private persons would not use the armor plates, and the more the United States used them the larger would be the royalties which the company received, so that it would have no motive, even if it had a right, to sue the makers of the plate. It is answered that armor was made for foreign governments, and that the makers were sued by the claimants in good faith, although, as it turned out, the final decrees were entered by consent. And it is argued on the other hand that the Government's construction would put the claimants at a great disadvantage, and would be giving up all benefit of the patent at the moment it was issued. We do not amplify the considerations of this sort on one side or the other. They are too uncertain to have much weight. The truth seems to be that the proviso is a more or less well-known and conventional one in licenses, *Charter Gas Engine Co.* v. *Charter*, 47 Ill. App. 33, 51, not a special contrivance for the special case, and that fact alone is enough to invalidate attempts to twist the meaning of the words to the

interest of either side. The proviso was inserted, no doubt, on the assumption that a licensee, when sued for royalties, is estopped to deny the validity of the patent which he has been using, and to give him the benefit of litigation by or against third persons, notwithstanding that rule.

We have somewhat more difficulty with the other question mentioned. It is argued that the agreement was only to pay for the use of the process covered by the patent named, and that if the meaning of the parties was to cover anything broader than the patent, even what was known in their speech as the Harvey process, that meaning could be imported into the contract only by reformation, not by construction of the contract as it stands. But we are of opinion that this defence also must fail. In the first place, it is not fully open on the record. The findings asked had a different bearing. All that were asked might have been made without necessitating a judgment for the United States as matter of law and the Court believed that the difference between patent and process was trivial. But we should hesitate to admit the defence in any event. The argument is that at the time of the contract it was supposed that the heat required for the process was greater than that actually used, that the patent was valid only for a process with the greater heat, and that the contract covers no more than the patent. But the fact that the parties assumed that the process used and intended to be used was covered by the patent, works both ways. It shows that they thought and meant that the agreement covered and should cover the process actually used. We think that this can be gathered from the agreement itself apart from the mere supposition of the parties. The contract dealt with a process "known as the Harvey process." It imported the speech of the parties and the common speech of the time into the description of the subject matter. The words, Harvey process, commonly are put in quotation marks in the first contract, thus emphasizing the adoption of common speech. They mean the process actually used. The contract states that it is dealing with the same thing that had been the subject of the former agreement. That agreement further identified that subject as a process which was tested at the Naval Ordnance Proving Ground. It also identified it, it is true, as a patented process, but, if the incompatibility of the two marks is more than trivial, as it was regarded by the court which found the facts with which we have to deal, the identification by personal familiarity and by common speech is more pungent and immediate than that by reference to a document couched in technical terms, which the very argument for the United States declares not to have been understood. It is like a reference to monuments in a deed. As we have said, this identification by personal experiment and by common speech is carried forward into the contract in suit. The latter contract manifests on its face that it is dealing with a process actually in use, which

requires the communication of practical knowledge and which further experience may improve.

We have not thought it useful to do more than indicate the line of thought which leads us to the conclusion that the claimant must prevail. We have confined ourselves to the dry point of the law. It might have been enough to say even less and to affirm the judgment on the ground that the findings asked and refused, so far as they were not refused because not proved, were only grounds for further inferences, not a special verdict establishing the defence as matter of law. But the fuller the statement should be made the more fully it would appear that the United States was dealing with a matter upon which it had all the knowledge that any one had, that it was contracting for the use of a process, which, however much it now may be impugned, the United States would not have used when it did but for the communications of the claimant, and that it was contracting for the process which it actually used—a process which has revolutionized the naval armor of the world.

Judgment affirmed.

True copy.

Test:

Clerk Supreme Court, U. S.